



JUL 01 2014

Office of Inspector General

MEMORANDUM

TO: Reginald W. Mitchell, Chief Financial Officer

FROM: Nathan Lokos, Assistant Inspector General for Audit /s/

SUBJECT: Other Matters Identified During the Office of Inspector General's Evaluation of USAID's Compliance With the Improper Payments Elimination and Recovery Act of 2010

We have evaluated USAID's compliance with the Improper Payments Elimination and Recovery Act of 2010 for fiscal year 2013 and have determined USAID complied in all material respects with the act's requirements.

During our evaluation, we noted certain matters involving USAID's internal controls and reporting that we present in this memo for your consideration. The comments and suggestions, all of which have been discussed with the appropriate members of USAID's management, are intended to improve USAID's internal controls or result in other operating efficiencies.

We appreciate the cooperation and courtesies that your staff extended to the Office of Inspector General during the audit. If you have questions concerning this memo or would like to discuss its contents, please contact Rohit Chowbay at 202-712-1317.

Attachment

Appeals of Questioned Costs

Although USAID established a deadline for grantees and contractors to appeal sustained questioned costs, it does not recover these questioned costs within a reasonable time of issuing the agreement officer's decision. As of September 30, 2013, USAID had approximately \$6.4 million in outstanding sustained questioned costs on appeal, including \$5.2 million outstanding since 2009. Title 22 of the Code of Federal Regulations, Part 226.90, and USAID guidance (Automated Directives System 303) permit the grantees and contractors to appeal the agreement officer's decision and submit all relevant, material evidence within 30 days of receipt of the agreement officer's decision. Although USAID classifies the sustained questioned costs as legitimate debts to the agency and submits bills of collection to grantees and contractors, it suspends collection efforts until the appeal process has been completed and the final debt determination letter issued. Because this process takes an inordinate amount of time, it prevents the Agency from collecting outstanding questioned costs in a timely manner, and delays it in classifying and reporting these sustained questioned costs as improper payments.

While this deficiency does not affect the Agency's compliance with the Improper Payments Elimination and Recovery Act, the process should be improved to enhance the recovery of sustained questioned costs. In 2013, USAID stated, "If too many risks are identified during a review of the audit report for a potential grantee, an award may not be made until the potential grantee has implemented sufficient corrective actions."¹ However, USAID continues to provide new funding for those grantees that have outstanding questioned costs on appeal.

Therefore, we suggest that:

- (1) USAID's Office of Acquisition and Assistance enforce the requirements of ADS 303 to ensure that grantees and contractors submit all relevant and material evidence within the thirty days specified by the ADS and that the Assistance Executive resolves all appealed questioned costs in a reasonable time.
- (2) USAID consider suspending new funding to those grantees and contractors with significant outstanding sustained questioned costs until sufficient corrective action has been implemented.

Standard Language in USAID's Agency Financial Report

The section titled "Improper Payments Reporting Details" in USAID's fiscal year 2013 Agency Financial Report does not include all the required information. Specifically, the risk assessment section¹ does not list certain indicators, such as internally reported funds control violations and questioned costs appealed by contractors/grantees, as potential risks factors. OMB Circular A-123, Appendix C, requires agencies to take into account risk factors likely to contribute to improper payments. Although not all funds control violations and questioned costs without final determination can be classified as improper payments, they should be included in the risk factors because USAID's final determination may affect the overall reporting of improper payments.

¹ "I. Risk Assessment," *USAID Agency Financial Report, Fiscal Year 2013*, p. 150.

Therefore, we suggest that USAID update the standard language for the Agency Financial Report to include the two significant risk factors regarding improper payments.